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Under Secretary Armacost

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U.S.-Japan Relations: A Global Partnership for the Future

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Following is an address by Michael H. Armacost, Under Secretary for Political Affairs, before the Japan Society of Northern California, San Francisco, July 21, 1986.

I am pleased and honored to join you on this commemoration of the 80th anniversary of the Japan Society of Northern California. This organization has consistently fostered closer relations between the United States and Japan. It is an important task, and it has never been more consequential for our two countries than at the present time. So I congratulate you on what you have accomplished, even as I urge you to redouble your efforts.

I am always happy to have an excuse to return to San Francisco. In a sense, this city is the birthplace of the modern U.S.-Japan relationship. At the Presidio in 1951, the peace treaty between the allies and Japan and the security treaty between the United States and Japan were signed. These agreements formally initiated 35 years of peace and prosperity in U.S.-Japan relations. They set the framework for the U.S.-Japan partnership about which I wish to comment this evening.

It is a remarkable partnership. Within the lifetimes of most of us in this room, our countries struggled on opposite sides of a bitter global war. Today, we stand united in our efforts to preserve peace and to promote economic growth and development throughout the world. The U.S.-Japan alliance is critical to the security of both our nations, and it is a pillar of that balance of power which supports the independence of free countries around the globe. Japan is our largest overseas trading partner—a fact of special significance to Californians, since 40% of all U.S. trade with Japan flows through this State. Politically, Japan stands firmly within the Western camp as a nation which practices market economies and democratic politics. In short, we both have a huge stake in this relationship about which I should like to make a few observations in order to put past accomplishments, current challenges, and future possibilities in perspective.

Changing Contours of U.S.-Japan Relations

Change has been a constant in this relationship. I have seen this firsthand. My involvement with Japan goes back nearly 20 years to 1968 when I took sabbatical leave from Pomona College to serve as a visiting professor at the International Christian University (ICU). I went not as a specialist but as a student eager to learn about a country which I vaguely apprehended would be an increasingly important force in the world.

To my surprise, the Japanese I encountered at that time seemed less concerned with the future than with the past. They were preoccupied with issues left over from history. They appeared surprised by their considerable postwar accomplishments and a little uncertain whether they could be sustained.

Although Japan had created a remarkably stable political structure, Japanese politics remained polarized over relations with the United States, the terms of and necessity for the mutual security treaty, and the constitutionality and role of Japanese defense forces. More than 100 universities—including ICU—experienced crippling student strikes during the year I was supposedly teaching. I recall witnessing Japanese riot police in full battle gear evicting student leaders from Yasuda Hall at Tokyo University. Though scarcely anyone was injured, it had all the appearances of a major military operation. One source of contention was the mutual security treaty, and the struggle symbolized the unsettled state of important issues between us.

In 1968 Japan was a relatively prosperous country. But despite nearly two decades of unbroken economic growth, many Japanese exhibited doubts about their economic future. They thought of themselves as a "poor, island nation without natural resources." They acknowledged their achievements, yet worried abut their "feet of clay." They feared Japan's prosperity would not last. Such anxieties fostered tight government controls on commerce and finance and encouraged an export-led growth strategy sustained by extensive neomercantilist import barriers.

Nor had U.S.-Japan bilateral relations attained the "equal partnership" of which the period's diplomatic communiques routinely spoke. Indeed, the Japanese seemed uncertain of their place in the world. Despite a natural preoccupation with its own neighborhood, Japan's role even in Northeast Asia was modest. Japan had little voice at the United Nations, no place yet at Western summits, and was just beginning to make its presence felt in economic groups such as the Organization for Economic Cooperation and Development (OECD).

Cultural interchange, in those days, remained largely a one-way street. Japanese knowledge of the United States was spurred by friendship, business, and the experience of occupation. Americans generally knew little of Japan. We had only the sketchiest appreciation of its potential and future promise. As a sign of the times, in those days, Washington had only one sushi bar, and you could still drive for blocks without seeing a Japanese-made car.

I need not tell you that times have changed.

The Present

Earlier this month, concurrent elections were held in both Houses of the Japanese Diet for only the second time in history. The stunning, almost unprecedented, landslide victory by the Liberal Democratic Party (LDP) symbolized perhaps the end of a political era. The young radicals of the 1960s, who fought the police on campus and voted for socialists and communists, are now white-collar workers, most of whom evidently voted for the LDP.

The conservative party made impressive gains in the cities, where, according to conventional wisdom, it was weakest. Within the party, a group of energetic "new leaders" emerged to carry their nation's banner into the future. And, of course, Prime Minister Nakasone scored an extraordinary personal triumph and secured a strong popular mandate for his policies. These include expanding Japan's international role, continuing administrative and fiscal reforms, and restructuring the economy to lessen reliance on export-led growth. With the support of a remarkably adaptive party, Prime Minister Nakasone has demonstrated world-class leadership.

Last week, the most prominent of Japan's new leaders—Mr. Abe, Mr. Miyazawa, and Mr. Takeshita—announced their support for extending the Prime Minister's tenure in office so that he can finish pending business. We welcome the prospect of continuing to work with a prime minister who is held in high esteem in the West and has so convincingly earned the trust of the Japanese electorate.

Mr. Nakasone, to be sure, faces some formidable challenges. The LDP has achieved a general mandate for change. Some of the presumed directions of change have been outlined in the Maekawa report—a future-oriented blueprint that has been widely praised on both sides of the Pacific. In a democracy like Japan's, the Diet will obviously play a major role in translating a broad mandate into specific policies and laws.

The ruling LDP now appears committed to opening the Japanese market and restructuring the economy. Some of its Diet members, however, will continue to resist measures that appear threatening to constituency interests. This should not be surprising to Americans. The President, after all, has secured a broad, bipartisan consensus behind tax reform. Yet some of the details are still to be negotiated in conference. Just as I am sure an acceptable tax bill will emerge from the House-Senate conference, so I am confident that a new consensus in Japan will support a timely restructuring of the Japanese economy. The die is cast, I believe, in favor of a more and more internationally oriented Japan.

U.S.-Japan relations were not a major issue in the recent election. In fact, the issues that dominated U.S.-Japan relations in the late 1960s have largely disappeared. The Indochina conflict no longer stirs partisan emotions; Okinawa transferred to Japanese administration in 1972; and both Tokyo and Washington have established solid working relations with China.

Today, Japan perceives its interests and its role in global terms. Perhaps most significant for U.S.-Japan relations, there is a striking convergence of U.S. and Japanese perceptions of the global situation. Two factors have contributed to this substantial coincidence of world views.

First, Japanese perceptions of its security requirements have been shaped by Soviet intransigence on the Northern Territories issue, by the relentless Soviet military buildup in the Pacific, and by Moscow's aggression in Afghanistan and its support for Vietnam's occupation of Cambodia.

Second, developments beyond East Asia—such as the "oil shocks" of the mid-1970s and the persistent turbulence in the Middle East and Persian Gulf areas since then—have reinforced our common interest in global stability. Over time, a consensus has emerged in Japan which supports steady improvements in Japan's self-defense capabilities and expanded bilateral defense cooperation with the United States.

In recent years the level and frequency of the U.S.-Japan bilateral dialogue has also changed dramatically. The Emperor's visit to the United States in 1975 symbolized the end of the postwar period. Starting with Gerald Ford, all our Presidents have visited Japan while in office. President Reagan and Prime Minister Nakasone have already met twice this year—first at Camp David and less than a month later in Tokyo. Secretary of State Shultz and Foreign Minister Abe have had 26 bilateral meetings—four of them this year. And senior officials responsible for areas as diverse as arms control and African affairs consult with even greater frequency.

The substance of our exchanges has changed as well. Twenty years ago, our talks with Japan focused primarily on bilateral rather than global or even regional issues. Now, our political dialogue is unsurpassed in its breadth and depth and extends literally to every corner of the globe. Many of these consultations go beyond simple exchanges of views to include increasingly close coordination of operational concerns. For example, my Japanese counterpart and I meet annually to promote the complementarity of our respective aid programs.

Foreign aid, in fact, is a good example of the expanding scope of Japan's international interests and involvement. In the 1960s, Japan's modest aid effort involved reparations to war victims and subsidies for Japan's expanding commercial interests. Today, under the concept of comprehensive security, Japan is seeking to make a significant contribution to Western security through other than military means. In 1984 the United States and Japan ranked first and second in the world as donors of foreign assistance. Between us, we furnished over $11 billion to developing countries. If Japan meets its declared objective of doubling its foreign aid by 1992, it will provide roughly $40 billion of additional assistance to less developed countries (LDCs) over the coming 6 years.

We particularly welcome the role Japan has assumed in providing aid to friendly countries such as Thailand, Turkey, Egypt, Pakistan, and the nations of Central America and the Caribbean. The Philippines and Haiti are now at crucial stages in their political evolution. The South Pacific is undergoing important political and economic changes. Africa faces natural calamities as well as daunting economic problems. We are working cooperatively with the Government of Japan to expand our respective efforts in promoting growth and encouraging stability in these and other areas.

The measures Japan has taken to expand its foreign aid constitute an appropriate effort to recycle its prosperity back into the global economic system. Clearly, there is more to be done. Japan gives twice as much aid to the nearby nations of Asia as it gives to African, Latin American, and Middle Eastern nations combined. As Japan's foreign policy activities expand to take account of its global economic power and "reach," we would anticipate not only increases in the levels of its aid but a further improvement in the concessional terms of assistance and the provision of a larger percentage of its aid to countries outside East Asia.

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Foreign assistance efforts pay foreign policy dividends. Over the past few years, many developing countries have discarded statist policies for market-oriented approaches to economic growth and are increasingly receptive to democratic ideas. Regrettably, at just this moment of opportunity, the U.S. Congress is drastically cutting back on our own foreign aid budget. This is penny-wise and pound-foolish, since aid to friendly countries is one of the most cost-effective investments we can make in our own security. Aside from the fact that about 70% of every U.S. bilateral aid dollar is spent on American goods and services, assistance to friendly governments supports freer markets, alleviates poverty or disaster, and underpins newly democratic regimes.

The cuts Congress threatens are potentially devastating. For fiscal year 1987 the President is requesting $22.6 billion for international affairs funding. This covers all our economic, military, and food aid programs as well as the State Department and United States Information Agency (USIA) budgets, our security programs overseas, and the costs of *Radio Free Europe* and *Radio Liberty*.

Congress has cut that amount to $17.4 billion—a 27% reduction. What will happen if we are forced to take a cut of this magnitude?

Some programs have been earmarked by Congress; they will be sustained. They include aid to Israel and Egypt, security assistance for base rights countries, and important programs in Central America and Pakistan. After taking care of these priorities, all other programs would have to be cut by over 50%. What might this mean?

- Haiti and other fledgling democracies in the Caribbean could see cuts in U.S. economic aid by more than two-thirds.
- Aid for the Andean countries—Bolivia, Colombia, Ecuador, and Peru—could be eliminated, with unfortunate consequences for our efforts to halt the production and illegal export of narcotics from that region.
- Economic support for Africa could be virtually eliminated—undermining policy reform plans and famine relief efforts.
- The Peace Corps could be forced to cut as many as 1,000 volunteers in Africa alone.
- *Radio Free Europe* and *Radio Liberty* could be forced into bankruptcy.

These are not idle threats or scare tactics. They reflect the plans we would be forced to put into action if Congress does not reconsider its drastic reductions. It is inconceivable that any serious person could presume that cuts of this magnitude will not significantly and adversely affect our national interests.

We are a superpower. Superpowers have far-flung interests. Supporting those interests carries with it certain costs. One cannot cut the means by which we protect our interests without placing our interests in jeopardy. This is a simple verity I hope Congress will not ignore.

Please excuse this brief commercial, but it is relevant to my theme. We are not encouraging Japan to do more in the field of aid so that we can do less but in order that jointly we can meet the requirements of stability and development in areas of vital interest to us both. Japan is expanding its aid efforts. It is not a time for us to be cutting our own program.

Current Challenges

The most difficult current bilateral problems continue to confront us in the field of trade. When I first lived in Tokyo, the United States and Japan experienced some acute trade problems—principally involving textiles. But they were of a different order of magnitude and character than today's. In the late 1960s, Japan maintained numerous quotas, high tariffs, and a host of other formal trade barriers which it was just beginning to dismantle. In 1968, Japan had a global trade deficit of $15 million. Its trade surplus with the United States was $604 million.

Over the last 20 years, the Japanese Government has eliminated most of its quotas and formal trade barriers. It has reduced its tariffs to a point where Japan now has the lowest average tariff of any industrialized country. However, a host of nettlesome problems—including some quotas, high tariffs, nontariff barriers, and restrictive business practices in certain areas—remain.

At the same time, the competitive challenge posed by high-quality Japanese products to important U.S. manufacturing industries has increased pressures for protection in this country. A 1985 U.S. global trade deficit of $148 billion—including a $50-billion trade deficit with Japan—coupled with a Japanese global trade surplus of $46 billion that year, heightens these pressures.

The U.S. trade problem is not, of course, limited to Japan. Our trade problem is global, but the bilateral deficit with Japan remains so large that it will be difficult to make headway on our global problem without redressing the bilateral imbalance. Progress must be made to reduce it.

We are determined to bring our bilateral trade with Japan into a more balanced equilibrium. Failure to do so exposes our political relations and security cooperation to heavy strains. And we believe our policy efforts will pay off.

- As Congress and the Administration reduce the U.S. Government's budget deficit, our savings/investment imbalance should decline and, along with it, our global trade deficit, including our bilateral deficit with Japan.
- In accordance with agreements reached by the major financial powers (G–5) last fall and by the Summit Seven in Tokyo last May, we are coordinating on international economic policies more closely with Japan and the other major industrialized countries. Adjustment of exchange rates is the most visible and dramatic result. A roughly 40% depreciation in the dollar against the yen during the past year should have a sizable impact, over time, on our trade position.
- Representatives of the U.S. and Japanese Governments are initiating a bilateral dialogue concerning structural economic issues of mutual concern. Indeed, a preparatory meeting on this subject was held in San Francisco today. This dialogue will examine the imbalances in the Japanese economy and U.S. economy and consider ways to correct them.
- The MOSS (market-oriented, sector-selective) talks are improving market access to entire industrial sectors within Japan. We have made substantial progress in electronics, telecommunications, medical equipment and pharmaceuticals, and forest products. We will soon open discussions on a fifth sector—transportation machinery.
- And finally, we are seeking to eliminate remaining trade barriers on other products—e.g., tobacco, leather, etc.—as we encounter them.

These are substantial efforts. We believe they are producing results. They are aimed at expanding trade while assuring equitable access to each other's market. They reflect faith in competition and a determination to see that the playing field for competition is level. They constitute an alternative to protectionism, which we are determined to resist.

Protectionism has a false and dangerous allure. Industries affected by imports usually ask for temporary and limited protection. Yet, while giving temporary relief to one industry, protectionist actions penalize the consumer and divert investment and labor from more efficient and productive industries. Protectionist bills like the House Omnibus Trade Bill (H.R. 4800) will not solve our trade problem. Protectionist measures will damage the U.S. economy, threaten American jobs, and embroil us in trade conflicts with virtually all our major trading partners. We cannot afford such an outcome, particularly with Japan.

Current Japanese-American challenges are not limited to trade. Signifi-

cant accomplishments have been registered in bilateral security cooperation. Frequently criticized as a "free rider" for relying on American muscle to protect its economic and political health, Japan has steadily augmented its defense capabilities. A growing domestic consensus has supported qualitative and quantitative improvements in Japan's Self-Defense Force and contributed to steady annual increases in Japan's defense spending.

We have also witnessed a growing Japanese commitment to the U.S.-Japan security structure. Antidefense shibboleths have disappeared from the platforms of several opposition parties. The Government of Japan has welcomed U.S.-homeported ships; it has authorized new U.S. Air Force deployments; it has participated in additional joint exercises. Japanese support for the American presence in Japan is now valued at over $1 billion annually.

While Japan's defense budget remains small as a percentage of gross national product, it is now the sixth largest in the world and is growing rapidly. This expanding defense budget supports a modern, well-trained military establishment with appropriate defense roles and missions: the conventional defense of Japanese territory, the surrounding seas and sky, and the sealanes within 1,000 miles. These roles are consistent with Japanese and American expectations—and with those of Japan's neighbors.

Japan's new 5-year defense spending plan represents a good start toward achieving the capabilities necessary to carry out these missions. We certainly would like to see Japan achieve its goals more quickly. Nonetheless, the Japanese Self-Defense Force is already an increasingly potent deterrent against aggression aimed at Japan and makes the role of our own forces in the region that much more effective.

Agenda for the Future

Time does not permit me to elaborate on the variety of other ways in which the U.S. and Japan cooperate diplomatically in many areas of the world. Suffice it to say, compared with 20 years ago, U.S.-Japan relations are now on a firm and solid basis. Our give-and-take on substantive issues has increased significantly. Recognition in both our countries of the scope of our interdependence has grown. Our knowledge of each other has appreciably increased.

We welcome these developments, yet we know there is no room for complacency on either side of the Pacific. As our relationship with Japan enters a new and more mature stage, the issues our two countries face become ever more complex and far-reaching. Constructively managing the U.S.-Japan relationship through the 1980s and beyond will be even more challenging.

We now need to look at the U.S.-Japanese relationship as an active partnership for global progress. In particular, we need to work closely with Japan to:

- Make equitable and sustained economic growth a reality for both the developed and developing world by preserving and improving the international trading system and assisting the LDCs to cope with their myriad problems, including the problem of external debt;
- See that people everywhere understand that a nuclear war cannot be won and must not be fought, by preserving deterrence while pursuing substantial and verifiable arms reduction;
- Expand international cooperation to rid the world of the scourge of terrorism;
- Defuse regional conflicts, such as in Indochina and Afghanistan; and
- Find ways to apply the technological developments of our information societies to the benefit of mankind.

Persistent and purposeful effort will be required as our governments and peoples create the conditions and consensus necessary for cooperation on this broad agenda.

Conclusion

Let me return to my opening theme. Times change. As they do, we must sometimes overcome what we thought we knew in the past. We have long since learned that we cannot go it alone, and we have begun to see Japan with new eyes. Japan is a strong country; it is becoming an outward-looking country. Japan is more than a trading partner; it is a valued ally and good friend. Even so, Japan is only on the brink of fulfilling its potential as a major contributor to world economic growth and comity.

We share many things with Japan: above all the conviction that we are not mere temporary allies but permanent friends. Our task is to use that friendship to bring to the benefit of all mankind our shared devotion to peace, our ability to foster change, our economic prowess, and our dedication to democracy. ■

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